A RESUMÉ OF THE FEDERAL INCOME TAX LAW OF 1913

PREPARED FOR

Empire Trust Company

NEW YORK CITY

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FOREWORD

On the following pages we give a synopsis of the principal features of the Federal Income Tax Law which became effective on October 4th, 1913, and imposes a tax upon incomes received from March 1st, last.

This synopsis is especially designed for perusal by busy people who wish to be informed as clearly and succinctly as possible as to the scope and application of the law, in order to know what, if anything, is required of them or the corporations they represent.

A study of the full text of the law and the regulations of the Treasury Department may be desired by those of large means, or varied interests, or by their attorneys, but such a study may be accomplished with greater ease after reading a brief resumé of the law such as is presented in this pamphlet.

RESUMÉ OF THE FEDERAL INCOME TAX LAW

The law may be readily divided into two parts, one relating to the tax imposed on individuals, including certain provisions for the collection of this tax at the source, and the other to the tax on corporations.

THE NORMAL TAX ON INDIVIDUALS

The tax upon individuals is imposed upon three classes of persons:

A—Citizens of the United States, whether resident or non-resident.

B—Aliens residing in the United States.

C—Persons residing elsewhere, but having income from property or carrying on a business, trade or profession in the United States.

TAXABLE NET INCOME DEFINED

Taxable net income may be defined as gross income (excluding exemptions) less allowable deductions.

Gross income includes gains, profits and income from every conceivable source, including a share of profits of a partnership to which the individual would be entitled if divided, whether divided or not, but does not include the following exemptions:

(1) Property acquired by gift, bequest, devise, or descent.

(2) Proceeds of life insurance policies received by beneficiaries.

(3) Amounts returned to an insured at the maturity or upon the surrender of endowment or annuity contracts.

(4) Interest upon obligations of a State or any political subdivision thereof.

(5) Interest upon obligations of the United States or its possessions.

(6) The compensation of the President of the United States for the present elective term, and of the judges of the United States courts now in office.

(7) The compensation of all officers and employees of a State or any political subdivision thereof, except when paid by the United States Government.

DEDUCTIONS ALLOWABLE

From the gross income of an individual as above, certain specified deductions are allowed, the remainder being the taxable net income upon which the normal tax is levied. These deductions are:

(1) Necessary expenses actually paid in carrying on a business.

(2) Interest paid on indebtedness.

(3) Taxes paid, not including assessments against local benefits.

(4) Losses actually sustained in trade or arising from fires, storms or shipwreck, and not compensated for by insurance or otherwise.

(5) Debts due to the taxpayer actually ascertained to be worthless and charged off within the year.

(6) A reasonable allowance for depreciation of property used in business and a limited allowance for depletion of mines.

(7) Amounts received as dividends from taxable corporations.

(8) Amounts of incomes upon which the tax has been paid at the source, if such amounts exceed $3,000.

No deduction is allowed for personal, living, or family expenses, but every person may deduct from his or her net income $3,000 if living alone, or $4,000 if living with wife or husband. Only one deduction of $4,000 is allowed from the aggregate income of both husband and wife when living together.

ADDITIONAL TAX ON INDIVIDUALS

Individuals are subject to a normal tax and an additional tax. The normal tax is 1% upon all net income over the specific deduction of $3,000 or $4,000 as the case may be. The additional tax is imposed only when the total net income of a person exceeds $20,000. In computing net income for the purpose of the additional tax deductions (7) and (8) above enumerated are not allowable, and the law is not clear as to whether the specific deduction of $3,000 or $4,000 is allowable. There must be included the share to which a taxpayer would be entitled of the gains and profits whether distributed or not of all corporations, associations, etc., availed

of for the purpose of preventing imposition of the tax by permitting such profits to accumulate instead of being distributed. The additional tax is graduated from one per cent. to six per cent. as follows:

On the amount by which the taxable net income, as above,

exceeds	$20,000	but not	$50,000,	i.e.,	$30,000....1%
"	50,000	" "	75,000,	i.e.,	25,000....2%
"	75,000	" "	100,000,	i.e.,	25,000....3%
"	100,000	" "	250,000,	i.e.,	150,000....4%
"	250,000	" "	500,000,	i.e.,	250,000....5%
"	500,000	....			6%

RETURNS REQUIRED

Persons having a net income not exceeding $3,000 need make no returns. Persons whose net income is $3,000 or more, but does not exceed $20,000, will not be required to make returns if the whole of such income is derived from dividends on stock, or from salary or other items upon which the whole of the tax has been paid at the source. Partnerships need not make returns of their income as the individual partners must account for all income of the partnership, but on request of the Commissioner of Internal Revenue, partnerships are required to report their profits and the names of those who would be entitled to the distribution of the same.

With the exceptions above enumerated, all persons of lawful age must make returns as described below, on or before March 1st.

Guardians, trustees, executors, administrators, agents, receivers, conservators, and all persons, corporations, or associations acting in any fiduciary capacity, are required to make a return for the person for whom they act, of the net income coming into their custody or control and management from March 1, 1913.

Returns of personal income must be made in such form as the Commissioner of Internal Revenue shall prescribe, setting forth specifically the gross income (but not the "exemptions") and the deductions authorized, on or before March 1st in each year, covering the income for the preceding calendar year. The return for the year 1913 shall include only income received on and after March 1st,

1913, and only five-sixths of the specific deductions provided for.

All persons, firms, corporations, etc., in whatever capacity acting, having the control, receipt, disposal, or payment of fixed or determinable annual or periodical gains, profits, and income, if over $3,000, of another person subject to the tax are required to make and render a return, separate and distinct, of the portion of the income of each person from which they have deducted the normal tax of one per cent. on and after November 1, 1913, containing the name and address of such person or stating that the name and address are unknown.

The returns are filed with the Collector of Internal Revenue for the district in which the person making the return resides, or has his principal place of business. Severe penalties are provided for failure to file the return or for making false or fraudulent returns or representations.

ASSESSMENT AND PAYMENT OF TAX

After the return is filed with the Collector of Internal Revenue it is forwarded to Washington, where the Commissioner of Internal Revenue makes the assessment, notice of which is sent to the taxpayer on or before June 1st of each year, and the tax must be paid on or before June 30th. If unpaid after ten days' notice and demand by the Collector a penalty of five per centum on the amount of the tax is added with interest at the rate of one per centum per month, except from the estates of insane, deceased or insolvent persons.

COLLECTION OF NORMAL TAX AT THE SOURCE

All persons, firms, co-partnerships, companies, corporations, joint stock companies or associations and insurance companies, in whatever capacity acting, including lessees or mortgagors of real or personal property, trustees acting in any trust capacity, executors, administrators, agents, receivers, conservators, employers,

and others, having the control, receipt, custody, disposal, or payment of interest, rent, salaries, wages, premiums, annuities, compensations, remuneration, emoluments, or other fixed or determinable annual gains, profits and income of another person, exceeding $3,000 for any taxable year, other than dividends on capital stock of corporations, etc., are required to deduct and withhold such sums as will be sufficient to pay the normal tax, and are each made personally liable therefor. But such tax need not be withheld prior to November 1st, 1913.

If the person whose tax is so withheld desires to receive the benefit of the specific deduction of $3,000 or $4,000, as the case may be, he must file a signed notice with the person or corporation required to withhold the tax, claiming the benefit of such deduction. This notice must be filed at least thirty days before March 1st in each year. If he wishes to obtain the benefit of the other deductions permitted by the law from his gross income he may either file with the person required to withhold the tax, a return of his income from all sources and of the deductions asked for, or he may file such return with the Collector of the district in which return is to be made for him not less than thirty days before March 1st in each year.

Unless deduction is claimed by signed notice as above stated, the normal tax of 1% must be deducted and withheld at the source from fixed or determinable annual income derived from interest on bonds, and mortgages, or deeds of trust, or other similar obligations of corporations, whether such interest is more or less than $3,000. (Not, however, upon the obligations of the United States, or its possessions, or of any State or political subdivision thereof.)

The same requirement as to deduction from any amount, great or small, applies to coupons, etc., in payment of interest upon bonds of foreign countries and upon foreign mortgages, or like obligations, not payable in the United States; also to dividends on stock or interest upon the obligations of foreign corporations engaged in business in foreign countries. This tax must be deducted by the banker or person who shall sell or otherwise realize

such coupons, checks or bills of exchange, but applies only when such coupons, etc., are not payable in the United States. Persons, firms or corporations undertaking as a matter of business the collection of foreign payments of such interest or dividends are required to obtain a license from the Commissioner of Internal Revenue under penalty of a fine or imprisonment.

REGULATIONS OF TREASURY DEPARTMENT

The regulations issued by the Treasury Department require all coupons to be accompanied by a separate certificate of ownership for each bond issue, executed by the individual, partner or corporation owning the bonds from which such coupons have been detached.

This certificate, if executed by an individual who is a citizen or resident of the United States, must state the amount of the deduction claimed by the owner as a part of the $3,000 or $4,000 to which he may be entitled or that such deduction is not claimed, as the case may be.

Care should be exercised by an individual or member of a firm to see that the total of exemption claimed by such certificates during any one calendar year does not exceed $3,000 or $4,000, as the case may be, or five-sixths thereof during the period ending December 31, 1913.

In the certificate of ownership covering coupons detached from bonds owned by a corporation or other organization or by a non-resident alien, claim is made in every case for an exemption of the whole amount as none of the income from bonds so owned need be deducted at the source.

Upon receipt of coupons accompanied by certificates of ownership the debtor corporation or its paying agent will be responsible for the deduction and withholding of such normal income tax as may not be covered by claims to exemption.

Where coupons are not accompanied by a certificate of ownership, the first bank or other agency receiving them for collection or otherwise must execute and attach a certificate giving the name and address of the owner or person presenting such coupons and acknowledging responsibility

for deducting and withholding the normal tax thereon.

In respect to fully registered bonds, similar certificates to those above described must be filed with the debtor corporation or its paying agent at least five days before such interest matures. The normal tax must be deducted and withheld from all payments of such registered interest until such time (not later than 30 days before March 1st) as proper certificates claiming exemption are filed.

No tax is required to be withheld on coupons maturing and payable before March 1, 1913, although presented for payment at a later date.

Coupons, checks, bills of exchange, etc., in payment of interest upon bonds issued in foreign countries and upon foreign mortgages, etc., and for dividends or interest of foreign corporations may be purchased or collected only by those licensed by the Commissioner of Internal Revenue, and such persons shall deduct and withhold the normal income tax upon such coupons, etc., and indorse or stamp thereon the fact that the tax has been withheld. If exemption is claimed with respect to these items by means of the certificates of ownership above described, no tax will be withheld and the items will be indorsed or stamped "Income Tax Exemption Claimed."

A temporary provision for the relief of those presenting coupons on November 1, 1913, or within fifteen days thereafter which are not accompanied by certificates of ownership allows the person or bank presenting them to attach a certificate stating the name and address of the owner, or if not known, so stating. The tax on such coupons will be deducted and withheld, but may be recovered by the owner upon his filing with the debtor corporation or its paying agent, on or before February 1, 1914, a certificate of ownership claiming the exemption to which he may be entitled.

The bonds of many corporations contain a provision that the interest shall be paid free from all taxes. In such cases it is probable that the debtor corporation, upon receiving coupons accompanied by certificates of ownership claiming no exemption, will pay such coupons in full

and themselves set aside the amount required to pay the normal tax thereon.

INCOME TAX ON CORPORATIONS, ETC.

The corporation tax law of 1909 is reenacted to cover the first two months of 1913, and the new law imposes a tax from March 1st, 1913. In both cases, net income is to be determined as provided in the new law, and the income for the first two months will be considered one-sixth of the income for the calendar year 1913. One return, however, may be made covering both the excise tax and the income tax for the year 1913, and one assessment by the Commissioner of Internal Revenue will cover both taxes.

The scope of the new law, in its application to corporations, is much broader than that of the old. The only classes of corporations excepted from the application of the new law, briefly speaking, are labor, agricultural or horticultural organizations, mutual saving banks not having a capital stock represented by shares, fraternal beneficiary societies, domestic building and loan associations, corporations organized and operated exclusively for religious, charitable, scientific or educational purposes, business leagues, chambers of commerce, boards of trade and civic leagues, when such corporations or associations are not operated for profit and the net income does not inure to the benefit of any private individual.

Under the old law, certain conditions were necessary to make corporations taxable—they had to be organized for profit, have a capital stock represented by shares, and be engaged in business. They were entitled to deduct $5,000 from their net income; dividends received by one corporation upon the stock held in other corporations also subject to the tax, were permitted to be deducted. The new law does not require that the corporation shall be engaged in business, permits no deduction of net income and permits no deduction of income received from dividends of other corporations.

The deductions permitted from the gross income under the new law are practically the same as those heretofore per-

mitted under the excise tax law. The more important changes are that the law now expressly provides for a reasonable allowance to be made for depletion of ores and natural deposits, not exceeding, however, five per cent. of the gross value at the mines of the output for the year. Also a corporation may now deduct from the gross amount of its income "the amount of interest accrued and paid within the year on its indebtedness to an amount of such indebtedness not exceeding one-half of the sum of its interest bearing indebtedness and its paid up capital stock outstanding at the close of the year, or if no capital stock, the amount of interest paid within the year on an amount of its indebtedness not exceeding the amount of capital employed in the business at the close of the year." Formerly interest paid on bonded or other indebtedness was deductible only to an amount of indebtedness not exceeding the issued capital stock of the company. The law also provides that in case of indebtedness wholly secured by collateral, the subject of sale in ordinary business, the total interest secured and paid may be deducted as a part of the expense of doing business.

Life insurance companies are authorized to exclude from their net incomes the so-called dividends on policies paid back or credited to the holders thereof or treated as an abatement of premium of such policyholders.

In the case of bonds or other indebtedness which have been issued with a guaranty that the interest payable thereon shall be free from taxation, no deduction for the payment of the tax is allowed.

Returns by corporations shall be made as heretofore on or before the first day of March in each year, and extensions of time may be obtained not exceeding thirty days if failure to file the return in time is occasioned by sickness or absence of an officer or other good reason. One important change from the former law is that corporations may, by filing proper notice with the Collector, file their return within sixty days after the close of their fiscal year, and may report income received during such fiscal year, instead of during the calendar year.

The tax of corporations filing their returns of net income on or before March 1st shall be assessed on or before June 1st and paid on or before June 30th next following. Corporations which have been permitted to make returns within sixty days after the close of their fiscal years are required to pay their taxes within one hundred and twenty days after the days on which their returns of income are required to be filed.

The law contains provisions applicable to mutual fire and marine insurance companies.

DUTIES OF THOSE WITHHOLDING AT SOURCE

The attention of officers of corporations and other persons is especially directed to the provisions of this law relating to the collection at the source. On every payment to an individual or partnership of rent or of salary exceeding $3,000 per annum, on every payment of interest on the bonds or other similar obligations of a corporation regardless of amount, to mention only a few specific instances, there must be withheld and paid to the Collector of Internal Revenue an amount sufficient to pay the normal tax thereon. In each case where a deduction is made, the individual or corporation withholding must list the amount so deducted, and give the name and address of the person from whose income the deduction was made. Failure to so withhold the tax will make the corporation or person liable for the amount. Corporations and individuals will also be charged with receiving and filing notices of exemption and returns of income of employees, bondholders and others who may claim deductions from the taxes paid for them.

ILLUSTRATION OF RETURN OF INDIVIDUAL FOR NORMAL AND ADDITIONAL INCOME TAX

EXEMPTIONS

(Which are excluded from Gross Income)

1. Legacy received	$25,000	
2. Received on life insurance policy surrendered	10,000	
3. Interest on United States bonds	4,000	
4. Interest on State and Municipal bonds	7,000	
5. Salary as officer or employee of State or City	3,000	
Total Income Exempted		$49,000

GROSS INCOME

6. Salary from domestic corporation	$12,000	
7. Gross income from own business	75,000	
8. Share of profits in firm whether divided or not	5,000	
9. Dividends on stock of domestic corporation	18,000	
10. Dividends on stock of foreign corporation collected through agent in United States	7,000	
11. Interest on bonds of domestic corporation whether "tax free" or not	8,000	
12. Interest on bonds of foreign corporation collected through agent in United States	3,500	
13. Rent from tenant of store	7,500	
14. Rents from office building, each tenant paying less than $3,000 per annum	45,000	
Gross Income Returnable		$181,000

DEDUCTIONS

15. Expenses of conducting own business	$50,000
16. Expenses of office building	10,000
17. Interest or personal indebtedness	1,000
18. Interest on real estate mortgages	2,000
19. Taxes on business, real estate, income, etc., except local assessments	1,500
20. Loss sustained in business, uninsured	5,000
21. Bad debts charged off	3,000
22. Depreciation of office building, etc.	2,000
23. Repairs but not betterments to office building	1,000

24. Dividends received (income item 9 only)		18,000	
25. Income taxed at source:			
6. Salary	$12,000		
10. Foreign dividends collected through agent in United States	7,000		
11. Interest on bonds (Registered or Coupon)	8,000		
12. Interest on foreign bonds (collected through agent in United States)	3,500		
13. Rent from tenant paying over $3,000 per annum	7,500		
		38,000	
26. Specific deduction		3,000	
27. Additional specific deduction if living with wife		1,000	
Total deductions for normal tax			$135,500

TAXABLE NET INCOME—(for normal tax)	$ 45,500
Normal tax to be paid by individual, 1% thereon	$ 455
Normal tax paid at source, 1% on item 25, $38,000	380

ADDITIONAL TAX—

Taxable net income for normal tax	$45,500	
Add deductions not allowable when computing additional tax:		
24. Dividends (Income item 9)	18,000	
25. Income taxed at source (Income items 6, 10, 11, 12 and 13)	38,000	
26. 27. Specific deductions according to opinion of Deputy Commissioner of Internal Revenue Speer. *See bottom of page 7*	4,000	
TAXABLE NET INCOME—(for additional tax)	$105,500	

Computation of additional tax:
On amount by which $105,500 exceeds—

$20,000 but not	$50,000, i.e.,	$30,000,	1%	300	
50,000 " "	75,000, i.e.,	25,000,	2%	500	
75,000 " "	100,000, i.e.,	25,000,	3%	750	
100,000 " "	250,000, i.e.,	5,500,	4%	220	
Total additional tax					$ 1,770
TOTAL INCOME TAX					$ 2,605

Empire Trust Company

New York

CONDENSED STATEMENT OF CONDITION
OCTOBER 10, 1913

RESOURCES

Cash in Vault and Banks . .	$9,321,347.98
N. Y. State and City Bonds . .	1,594,565.00
Other Bonds and Stocks . .	3,532,471.40
Loans	11,967,222.27
Bonds and Mortgages . . .	933,134.43
Real Estate	519,497.19
Accrued Interest Receivable and Other Assets	234,518.57
	$28,102,756.84

LIABILITIES

Capital Stock	$1,500,000.00
Surplus and Undivided Profits	1,579,040.11
Reserved for Accrued Interest, Taxes, Rents, etc. . . .	183,579.59
DEPOSITS	24,840,137.14
	$28,102,756.84

This Company is the Fiscal Agent of the State of New York for the Sale of Stock Transfer Tax Stamps

Empire Trust Company

New York

MAIN OFFICE: 42 BROADWAY

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242 EAST HOUSTON STREET

LONDON, E. C.

DASHWOOD HOUSE—9 NEW BROAD STREET

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